

Arizona Senate Finance Committee

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FINANCE COMMITTEE

**Forty-seventh Legislature
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LEGISLATION ENACTED

~~luxury tax; tobacco stamps~~ (NOW: cigarette sales; licensing; luxury tax) (S.B. 1066) – Chapter 278

Authorizes the Department of Revenue (DOR) Director to sell or dispose and destroy cigarettes that are not lawfully stamped. Distributors who defraud the state by failing to keep proper records or pay luxury taxes forfeit all equipment and personal property to the state. DOR may enjoin the distributor from continuing business until the luxury tax is paid and compliance is achieved. Prescribes notice requirements for DOR and establishes an administrative appeal process for anyone subject to forfeiture.

Imposes additional monetary penalties for failure to comply with licensing and luxury stamp requirements and for selling or possessing cigarettes with false labels and counterfeit tax stamps. Transporting or selling 10,000 cigarettes or more that are unstamped, illegally stamped or stamped for on-reservation sales but sold off an Indian reservation is a class 3 felony.

Repeals the requirement that distributors stamp all cigarettes within 48 hours of receipt. Establishes new procedures for DOR and distributors when affixing luxury stamps to cigarettes.

Requires an individual who acquires or possesses unstamped cigarettes for personal use or consumption to register with DOR. There is no registration fee; however, the individual must pay all applicable luxury taxes within ten days of receiving unstamped cigarettes. DOR is required to issue stamps to registered individuals after the tax has been paid. A registered individual is prohibited from selling unstamped cigarettes or tax stamps. Prescribes conditions by which DOR is authorized to deny, not renew or revoke a distributor license. Prescribes a conditional enactment date of July 1, 2007, or the date DOR makes the stamp for registered individuals available, for provisions relating to tax stamp and affixture requirements for registered individuals.

Requires cigarette distributors, manufacturers and importers to file a monthly return with DOR and prescribes the return's content requirements.

Requires DOR to verify the license of a distributor of tobacco products upon request or to disclose the information on DOR's website. DOR's inspection of a wholesaler, distributor or retailer's records must begin during the business's normal business hours; an inspection after normal business hours requires a judicial warrant or prior consent of the business.

This legislation becomes effective on October 1, 2006, except as noted by the conditional enactment.

FINANCE COMMITTEE (Cont'd.)

contractor sales tax; development fees (S.B. 1068) – Chapter 386

Effective September 1, 2006, exempts state and local development and impact fees from state and municipal transaction privilege taxes.

2006 tax corrections act (S.B. 1069) – Chapter 76

Makes technical, clarifying and conforming changes to Arizona tax statutes.

group life insurance; coverage requirement (S.B. 1070) – Chapter 216

Eliminates the requirement that a group life insurance policy, offered by a credit union, employer, labor union or trustees of a fund, of which part of the premium is derived from employee contributions, can only be offered if 75 percent of eligible employees participate.

~~income tax returns; rounding~~ (NOW: enterprise zone; reauthorization) (S.B. 1074) – Chapter 387

Extends the Enterprise Zone Program (EZ Program) for five years until June 30, 2011. Expands the eligibility for the EZ Program property tax incentives to allow closely- held manufacturing and family-owned businesses and small commercial printers to qualify.

~~children; removal from home~~ (NOW: CORP; membership expansion) (S.B. 1142) – Chapter 308

Allows probation, surveillance and juvenile detention officers employed by the judiciary to participate in the Corrections Officer Retirement Plan (CORP), conditioned on the Administrative Office of the Courts entering into a joinder agreement with the Fund Manager. Provides for the necessary transfer of Arizona State Retirement System assets to CORP.

Establishes a local board to administer the Fund for probation, surveillance and juvenile officers employed by the judiciary and prohibits the local board from subtracting, modifying or waiving any of the terms of the plan, from changing or adding any benefits, or waiving or changing any eligibility requirements in the plan.

income tax credit review schedule (S.B. 1155) – Chapter 82

Reschedules in 2010 the review of the income tax credit for: 1) the employment of Temporary Assistance for Needy Family recipients and 2) contributions to charitable organizations.

internal revenue code conformity (S.B. 1156) – Chapter 357

Conforms the definition of the United States Internal Revenue Code (IRC) for tax year 2006 to the IRC definition in effect on January 1, 2006.

FINANCE COMMITTEE (Cont'd.)

industrial development financing; procedures (S.B. 1162) – Chapter 156

Modifies Industrial Development Authority (IDA) financing statutes by: exempting IDA and pollution control corporations from reporting to the Department of Revenue regarding debt issued by tax levying public entities; authorizing the IDA governing body to remove a director at any time; and authorizing an IDA to finance projects located in whole or in part outside of the state. The effective time period of a volume cap allocation made by the Arizona Department of Commerce is extended from 60 to 90 days, and the maximum volume cap award to any project is increased from \$20 million to \$35 million.

ASRS; optional forms of retirement (S.B. 1167) – Chapter 309

Allows Arizona State Retirement System (ASRS) retired members to rescind the election of and choose a different optional form of retirement benefit one-time after retirement benefits have commenced. This limitation is conditioned on ASRS receiving approval from the Internal Revenue Service that limitation does not violate the minimum distribution rules prescribed by federal law.

Appropriates \$50,000 from the ASRS administration account in FY 2006-2007 to ASRS for implementation costs. Monies unspent by July 1, 2009, revert to the ASRS administration account.

ASRS; federal conforming changes (S.B. 1168) – Chapter 157

Conforms the required employer contribution requirements for the purchase of credited military service with the Uniformed Services Employment and Reemployment Rights Act of 1994 (38 United States Code section 4312(c)). Conforms Arizona State Retirement System (ASRS) statutes relating to the minimum required distributions of retirement benefits to retired members and their beneficiaries with Section 401(a)(9) of the Internal Revenue Code.

Requires ASRS members who elect the period certain retirement benefit to name a beneficiary or beneficiaries who are entitled to the retirement payments for any portion of the period certain beyond the lifetime of the member.

estate; generation skipping taxes; repeal (S.B. 1170) – Chapter 262

Retroactive to January, 1, 2006, repeals the estate and generation skipping tax and allows the amount of federal estate taxes to be subtracted from an estate's Arizona gross income.

~~CORP; reemployment; pension~~ (NOW: CORP; retirees; employment) (S.B. 1172) – Chapter 301

Allows a full-time dispatcher of an eligible Corrections Officer Retirement Plan (CORP) employer to elect to participate in CORP within the deadlines and pursuant to the participation terms prescribed by the Fund Manager. A dispatcher may elect not to become a member of CORP, but must sign an irrevocable agreement before a joinder agreement becomes effective.

FINANCE COMMITTEE (Cont'd.)

Establishes an ordinary disability pension for full-time dispatchers of CORP and prescribes conditions for qualification. Provides for the calculation of the ordinary disability pension.

special retirement plans; amortization (S.B. 1357) – Chapter 251

An emergency measure that allows for the lengthening of the amortization period for unfunded actuarial accrued liability (UAAL) of the Public Safety Personnel Retirement System (PSPRS), the Corrections Officer Retirement Plan (CORP) and the Elected Officials' Retirement Plan (EORP), from 20 years to up to 30 years.

The minimum required contribution rate for employers participating in PSPRS is increased from 5 percent to 8 percent and from 5 percent to 6 percent for employers participating in CORP.

Stabilization reserve accounts are established within PSPRS, CORP and EORP to limit the decline in the funds' funding ratio if the actuary determines a valuation asset deficiency and an UAAL. Requires the Fund Managers of PSPRS, CORP and EORP to deposit 50 percent of each fund's excess valuation assets in the newly created stabilization reserve accounts for each fund that is more than 100 percent funded.

public retirement plans; administration amendments (S.B. 1359) – Chapter 264

Makes numerous statutory changes related to the administration of the Public Safety Personnel Retirement System (PSPRS), the Corrections Officer Retirement Plan (CORP) and the Elected Officials' Retirement Plan (EORP). Public officers and employees are exempt from liability for acts done in official capacity based on the good faith reliance or written opinions of any authorized private attorney for the independent public retirement trust fund or system. Allows the Fund Manager to invest in publicly traded exchange traded funds and make investments in any asset not otherwise statutorily limited or prohibited. Service credits for active and inactive members are permitted to be transferred between a municipal retirement system and PSPRS and CORP. Prescribes the conditions for the transfer and the value of transferred service credits.

Establishes a mechanism to recover damages from a person who defrauds or takes, converts, steals or embezzles monies owned by or from PSPRS, CORP or EORP. Defines "killed in the line of duty" for the purposes of determining death benefits under PSPRS and CORP. Defines "same position" for the purposes of allowing a member of PSPRS to be reemployed and receive a pension at the same time. Requires a CORP local board to disregard any other evidence or opinions, other than the medical evidence from a local board selected clinic or doctor, when basing a finding of total and permanent and accidental disability.

Stipulates that the current institutional investments qualification to serve as the Arizona State Retirement System investment management is satisfied if investment management or the individual retained by investment management meets this qualification.

FINANCE COMMITTEE (Cont'd.)

motion picture production incentives (S.B. 1367) – Chapter 222

SEE COMMERCE & ECONOMIC DEVELOPMENT COMMITTEE.

property tax valuation; telecommunications companies. (S.B. 1390) – Chapter 38

Allows the Department of Revenue to adjust for obsolescence the valuation of property owned by telecommunications companies based on information submitted by the taxpayer.

~~CORP; technical correction~~ (NOW: corporate tuition tax credit; amount) (S.B. 1404) – Chapter 325

Increases, from \$5 million to \$10 million in FY 2006-2007, the maximum annual amount of corporate income tax credits allowed for contributions to school tuition organizations. Beginning FY 2007-2008, the cap is annually increased by 20 percent.

prime contracting; exemption; waste disposal (S.B. 1411) – Chapter 168

Excludes, from the prime contracting classification of the transaction privilege tax (TPT, portions of gross income attributable to operating a landfill or solid waste disposal facility, including filling, compacting and creating vehicle access to cell sites within the landfill. This TPT exemption does not apply to the interpretation of the Model City Tax Code.

tax exemption; liquid natural gas (S.B. 1433) – Chapter 371

Exempts, retroactive to tax periods beginning August 1, 2005, the natural gas used for the sole purpose of fueling the necessary equipment used in the liquid natural gas conversion process from transaction privilege tax and use tax. Requires claims for refunds to be submitted to the Department of Revenue on or before December 31, 2006.

department of revenue; continuation (S.B. 1461) – Chapter 391

Department of Revenue Sunset – Retroactive to July 1, 2006, continues the Department of Revenue (DOR) until July 1, 2016.

New Tax Interpretation or Application – Provides an affirmative defense to taxpayers in an administrative or judicial proceeding regarding a retroactive assessment of tax, interest and penalties if DOR determines that the taxes due apply to a new or additional category or type of taxpayer and the change in interpretation or application is not due to a change in the law. DOR is prohibited from applying newly enacted legislation retroactively or assessing a tax penalty or interest based on a change in interpretation or application. Any change or interpretation or application of tax law by DOR only applies prospectively, unless favorable to taxpayers.

Property Valuation Tables – Requires DOR to submit any guidelines, tables and manuals that are substantively developed, amended or proposed beginning January 1, 2007, to the Joint Legislative Oversight Committee on Property Tax Assessment and Appeals (Committee). The

FINANCE COMMITTEE (Cont'd.)

Committee has 30 days in which to hold an informational hearing regarding the proposed measure. DOR must consider the Committee's comments before the proposed measure is finally adopted.

property tax exemption; educational institutions (S.B. 1481) – Chapter 392

Exempts from property taxation, property owned by a qualified religious or charitable organization that is leased to a nonprofit educational organization and used for educational instruction. The owner of a property that qualifies for the tax exemption is not required to file annual affidavits attesting to the property's continued eligibility unless the property is sold or is no longer used for qualified educational purposes.

Exempts qualifying low income rental property owned and operated by a qualified nonprofit organization and is used as an assisted living facility for a maximum of 200 low income elderly residents from property taxation.

corporate tax credit; tuition organizations (S.B. 1499) – Chapter 14

Starting FY 2006-2007, establishes a corporate income tax credit for the amount of voluntary cash contributed by a corporation in each taxable year to a school tuition organization (STO). The amount of the tax credit must be preapproved by the Department of Revenue (DOR). The aggregate amount of the tax credit is capped at \$5 million annually and expires on June 30, 2011.

An STO is required to use 90 percent of the corporate contributions that qualify for the tax credit to provide educational scholarships or tuition grants to low income children who meet certain private school attendance requirements. An STO may not issue a scholarship or tuition grant in an amount greater than \$4,200 for grades K-8 and \$5,500 for grades 9-12 in 2006. This amount increases by \$100 each year thereafter. Children who receive educational scholarships or tuition grants are allowed to attend any private school. Establishes annual STO reporting requirements.

DOR may verify that an STO awarded educational scholarships and grants to students who attend a private school. A private school must annually administer and make available to the public the aggregate test scores of its students on a nationally standardized norm-referenced achievement test, preferably the Arizona Instrument to Measure Standards test, and require all teaching staff and any personnel who have unsupervised contact with students to be fingerprinted.

judicial tax appeal determinations; carryover (S.B. 1502) – Chapter 170

Requires a county assessor to use the property value determined by a judicial appeal as the beginning basis for the following year's valuation.

FINANCE COMMITTEE (Cont'd.)

ballot storage; public inspection (NOW: donated food; tax exemption) (S.B. 1506) – Chapter 225

Exempts from transaction privilege and use taxes, prepared food, drink or condiment donated by a restaurant to a nonprofit charitable organization that regularly serves meals to the needy and indigent on a continuing basis at no cost.

mortgage interest deduction (S.C.M. 1003)

Requests the United States Congress to reject any attempt to lower the mortgage index deduction in the Internal Revenue Code and to enact legislation raising the current mortgage cap and index it for inflation.

tax setoff for debts; verification (H.B. 2001) – Chapter 187

Prescribes enhanced verification of taxpayer information as part of the Department of Revenue's Liability Setoff Program. A taxpayer whose income tax refund was intercepted as a result of being incorrectly identified as a debtor to a state agency or court is entitled to receive a penalty in addition to the intercepted tax refund. The penalty is based on a percentage of the intercepted refund and the length of time it takes the agency or court to reimburse the taxpayer.

tax check-off; veterans' donations fund (H.B. 2054) – Chapter 102

Beginning tax year 2007, the Department of Revenue must provide a space on the individual income tax return form to allow a taxpayer to voluntarily donate any amount in lieu of or in addition to the designated refund amount to the Veterans' Donation Fund.

ASRS; benefit election; spousal notification (H.B. 2082) – Chapter 103

Requires a member of the Arizona State Retirement System to notify the member's spouse before naming a different beneficiary or contingent annuitant other than that spouse, or electing an alternative retirement option.

taxes; payments, filings and extensions (H.B. 2086) – Chapter 123

Adds electronic funds transfers and automated clearing house debits or credits to the list of transactions that the Department of Revenue can impose a \$25 nonsufficient funds fee if the transactions are not paid or are dishonored. The deadline for taxpayers paying transaction privilege tax (TPT) electronically is extended from the 25th day of each month to the second to last business day of the month; taxpayers paying TPT by mail must postmark the payment by the 25th day of the month or the payment must be received by the second to last business day of the month. A taxpayer's TPT liability is subject to penalties if the TPT return is not filed at the same time as the tax payment. The penalty imposed is the same as the penalty for delinquent TPT.

taxation; confidentiality (H.B. 2088) – Chapter 18

Allows the Office of Administrative Hearings (OAH) to hear an appeal regarding the reporting of income tax, withholding tax or estate tax if the taxpayer agrees in writing and

FINANCE COMMITTEE (Cont'd.)

waives confidentiality. The Department of Revenue (DOR) is permitted to disclose confidential tax information to a federation of tax administrators or multistate tax commission if the information is used for tax administration purposes and DOR is granted similar privileges. DOR is also permitted to disclose confidential tax information to the U.S. Treasury Department for use in the State Income Tax Levy Program and in the electronic federal tax payment system.

Applies confidentiality disclosure requirements and restrictions to independent auditors hired by DOR and prohibits any person who received confidential tax information relating to unclaimed property while an employee, agent or independent auditor of DOR or OAH from disclosing that information unless statutorily authorized. DOR may disclose confidential tax information relating to reports of abandoned property to the holder of the property.

transaction privilege tax; postage deduction (H.B. 2089) – Chapter 105

Exempts postage and freight expenses that are separately itemized on a customer's invoice and in the taxpayer's records from the job printing classification of the transaction privilege tax.

ASRS; local termination incentive program (H.B. 2103) – Chapter 106

Changes the term "retirement incentive program" to "termination incentive program" in the Arizona State Retirement System statutes. Additionally, allows a member participating in a termination incentive program to retire before or on the agreed upon termination date.

~~technical correction; minimum wages~~ (NOW: PSPRS; CORP; EORP; continuation) (H.B. 2113) – Chapter 125

Retroactive to July 1, 2006, continues the Arizona State Retirement System, Corrections Officer Retirement Plan, Elected Officials' Retirement Plan and the Public Safety Personnel Retirement System until July 1, 2016.

municipal tax exemption; fairs (H.B. 2132) – Chapter 171

Retroactive to July 1, 1999, exempts from municipal transaction privilege tax, gross income derived from ride ticket sales retained by the Arizona Exposition and State Fair Board at the annual Arizona State Fair.

~~insurance annuities; protection for seniors~~ (NOW: insurance annuities; protection) (H.B. 2162) – Chapter 172

Establishes new regulations regarding the sale of insurance annuities. In recommending the purchase of an annuity or exchange of an annuity, the seller must have reasonable grounds to believe the recommendation is suitable for the consumer based on the facts disclosed by the consumer as to his or her investments, insurance products and financial situation and needs.

Prior to the purchase or exchange of an annuity, the seller must make reasonable efforts to obtain information about the consumer's financial status, tax status and investment objectives.

FINANCE COMMITTEE (Cont'd.)

An insurer must assure that a system to supervise recommendations is in place that is reasonably designed to achieve compliance with the law and may contract with a third party to do so.

utilization review; dental plans (NOW: credited service transfer; ASRS) (H.B. 2163) – Chapter 257

An emergency measure allowing a county employee to join the Arizona State Retirement System and transfer pretax assets from an existing retirement plan or program by paying the cost for transferring credited service until June 30, 2007. On or before the transfer, the employee's existing plan or program must be irrevocably terminated with respect to employer and employee contributions. Any remaining balance may only be dispersed to the employee on the distributable events prescribed by the plan.

property tax exemption; health care (H.B. 2175) – Chapter 327

Retroactive to January 1, 2000, exempts property owned by a nonprofit health care provider from taxation, if the property is used to provide health care service and is not used or held for profit. The exemption includes all buildings, appurtenant land, fixtures, equipment and other reasonably required property used for the administration of services. All taxes, penalties and interest paid by a qualifying nonprofit health care provider for tax years 2000 to 2005 are required to be refunded to a qualifying organization.

health insurance premium tax credit (H.B. 2177) – Chapter 378

Beginning tax year 2007, establishes a premium tax credit for insurers that provide health insurance to individuals or small businesses that are certified by the Arizona Department of Revenue (DOR). The amount of the tax credit for insurance coverage for individuals is the lesser of: 1) \$1000 for single coverage, \$500 for coverage of a child or \$3000 for family coverage, or 2) 50 percent of the health insurance premium. The amount of the tax credit for insurance coverage for small businesses is the lesser of: 1) \$1000 for single coverage or \$3000 for family coverage, or 2) 50 percent of the health insurance premium. The maximum amount of tax credits allowed is limited to \$5 million per calendar year.

Individual eligibility for the certificate is limited to Arizona residents who are U.S. citizens or legal resident aliens who earn less than 250 percent of the federal poverty level, have not had health insurance coverage for at least six months and are not enrolled in the Arizona Health Care Cost Containment System, Medicare or any other state or federal health insurance program. Appropriates \$75,000 in FY 2006-2007 and \$30,000 in each fiscal year beginning FY 2007-2008 through FY 2010-2011 from the state General Fund to DOR for administrative costs.

Requires Legislative Council to submit a semiannual report to the Legislature analyzing and evaluating the effect of the premium tax credit on health insurance accessibility.

FINANCE COMMITTEE (Cont'd.)

ASRS; deferred retirement; repeal (H.B. 2340) – Chapter 12

Repeals the Modified Deferred Retirement Option Plan within the Arizona State Retirement System.

tax exemption; food; school districts (H.B. 2360) – Chapter 321

Exempts sales of prepared and unprepared food to a school district or charter school from transaction privilege and use taxes, retroactive to January 1, 2000. Claims for refunds must be filed with the Department of Revenue by December 31, 2006. The aggregate amount of refunds is capped at \$100,000.

state board of equalization; members (H.B. 2377) – Chapter 332

Prohibits a member of the State Board of Equalization (SBOE), other than the chairperson, from having been employed by a county assessor, a county attorney, the Department of Revenue (DOR) or the Attorney General (AG) within the last two years. When possible and at the chairperson's discretion, not more than one member on a three-member panel and not more than two members on a five-member panel may have been employed by a county assessor, a county attorney, DOR or the AG within the last four years. Current SBOE members may continue to serve their term without consideration of the new qualifications.

The membership of the SBOE is increased from 17 to 33 members and member compensation is increased from \$150 to \$300 per day. The years of experience required in property valuation for an individual to qualify for appointment to the SBOE is decreased from four years to three years. Appropriates \$30,000 from the state General Fund to the SBOE for the increased compensation of the board members.

solar energy tax incentives (H.B. 2429) – Chapter 333

SEE NATURAL RESOURCES & RURAL AFFAIRS COMMITTEE.

verification of class three property (H.B. 2474) – Chapter 322

Allows a county assessor's office to enter into an intergovernmental agreement with the Department of Revenue (DOR) for a coordinated and comprehensive review of rental residential (class four) properties that may be erroneously classified as owner-occupied (class three). DOR is required to issue an annual report to the Governor and Legislature on the processes and procedures used by each county in its verification program.

CORP; return to work (H.B. 2482) – Chapter 241

Allows a retired member of the Corrections Officer Retirement Plan (CORP), who retired prior to January 1, 2006, to be reemployed by a CORP-participating employer and continue to receive pension benefits. Specifies requirements for the return to work option. The return to work option repeals on June 30, 2008.

FINANCE COMMITTEE (Cont'd.)

Establishes a reverse Deferred Retirement Option Plan (reverse DROP) for members of CORP. Eligibility in the reverse DROP is limited to employees with a minimum of 24 years of credited service.

Rio Nuevo; shared revenue (H.B. 2702) – Chapter 376

SEE COMMERCE & ECONOMIC DEVELOPMENT COMMITTEE.

tax exemption; government owned property (H.B. 2717) – Chapter 323

Exempts permanent improvements constructed on property owned by and leased from an agricultural improvement district from property tax.

tax exemption; active duty pay.. (H.B. 2795) – Chapter 342

Effective January 1, 2007, makes the state income tax exemption of military income for active duty members of the Armed Forces of the United States permanent and adds active duty pay of members of the National Guard and reserves to the state income tax exemption.

licensing procedures; cable television (H.B. 2812/S.B. 1421) – Chapter 3

Limits the total rates of the license fee and any transaction privilege tax (TPT) on gross revenue levied or assessed by a licensing authority on a cable television operator to a maximum rate of five percent. If a license is extended or renewed and the license term begins before January 1, 2008, the limitations of TPT on gross revenue is five percent if the gross effective rate is five percent or less. If the gross effective rate is greater than five percent, the license fee reduction is phased in over a three-year period. Requires any reduction in the amount of fees or taxes paid to be passed on to subscribers.

A licensing authority may not require a cable operator to provide in-kind services, make in-kind payments or pay a fee in addition to the license fee, except that a licensing authority may require a cable operator to provide two public, education or governmental channels, two channels of noncommercial governmental programming and the basic service tier of cable service at no monthly charge to offices and facilities of the licensing authority. The value of any channel capacity provided and of basic services provided may not be offset against the licensing fee levied. However, in-kind payments may be negotiated outside of the license agreement. If in-kind payments are negotiated, they must be less than or equal to and offset against the license fee.

Prohibits the levying of a tax, rent, fee or charge on a cable operator for the use of public streets, roads or alleys to provide cable service. A licensing authority may require a cable operator to bear reasonable costs associated with damage caused to public streets, roads and alleys by construction, maintenance and operation of its facilities in the highways in the same manner as imposed on other telecommunications corporations.

The license fee limitations do not apply to any licenses in effect before July 1, 2007.

FINANCE COMMITTEE (Cont'd.)

manufactured buildings; taxation (H.B. 2820) – Chapter 230

Clarifies manufactured building taxation under the prime contracting classification of transaction privilege tax (TPT), including: taxing the alteration and repairs to used manufactured buildings under the prime contracting classification of the TPT; prescribing the taxable situs of sales of new manufactured buildings; excluding lessors of manufactured buildings from TPT at resale; and subjecting manufactured buildings purchased outside of and set up in Arizona to the prime contracting classification of the TPT.

property tax assessment, valuation, appeals (H.B. 2821) – Chapter 143

Property Tax Assessments, Valuation and Appeals – Prohibits a county assessor from changing the final tax roll reported on February 10 to the Property Tax Oversight Commission (PTOC) for levy limit purposes, unless approved by the PTOC. The deadline to appeal decisions of a county board of equalization is changed to the later date of December 15 or within 60 days after the mailing of the decision. The deadline to appeal a State Board of Equalization property valuation or classification decision is extended so that the time limit begins the date the decision is mailed. Modifies the definition of “full cash value” to stipulate that, for property tax purposes, full cash value will not exceed market value regardless of the valuation method.

Elderly Assistance Fund – Requires the Maricopa County Board of Supervisors to establish an Elderly Assistance Fund (EAF) to reduce primary school district taxes for seniors who qualify for the Senior Property Valuation Freeze. Monies in the EAF are required to be used to proportionally reduce primary school district taxes for all qualified seniors.

The interest rate required to be paid for the redemption of a property tax lien is increased from the rate stated in the certificate of purchase to 16 percent. The County Treasurer is required to deposit the amount of the difference between the amount of interest stated on the certificate of purchase and 16 percent interest upon the redemption of a property tax lien in the EAF.

Maricopa County is required to report to the Legislature and the Governor regarding the effectiveness of the EAF in reducing property taxes for qualified seniors by January 1, 2008.

~~omnibus tax relief act.~~ (NOW: tax relief; omnibus) (H.B. 2876) – Chapter 354

Property Tax – Renames the county equalization assistance for education tax rate as the state equalization assistance property tax rate. For tax years 2006 through 2008, the state equalization assistance property tax rate is set at zero. For each tax year thereafter, the rate is calculated based on the truth in taxation adjusted rate from the 2005 tax year. Municipalities, counties and community college districts are required to set their tax year 2006 primary property levies at the lesser of their constitutional levy limit or their 2005 primary property tax levy, plus new construction and inflation.

Beginning July 1, 2007, any city, county, school district, community college district or special taxing district bond, override or other issue that will require or authorize a secondary property tax assessment is required to be held on the November general election date. This requirement does not apply to community facilities districts.

FINANCE COMMITTEE (Cont'd.)

Beginning January 1, 2007, modifies the information that is provided in the information pamphlet for bonds, overrides and other secondary taxes to require a political subdivision to show the impact of the estimated debt service for a \$250,000 home and a commercial or industrial property valued at \$2.5 million, assuming that the assessed value of the home or business will remain constant over the term of the bonds, and requires the tax impact to be shown per year, the total number of years of the bond and the total cost of the bond.

Individual Income Tax – Reduces individual income tax rates by ten percent over a two-year period, beginning January 1, 2006.

Transaction Privilege Tax – Repeals the membership camping classification of the transaction privilege tax and the rental occupancy tax and eliminates the timber severance tax, beginning November 1, 2006.

federal excise tax; telecommunications; repeal (H.C.M. 2007)

Urges the United States Congress to repeal the federal telecommunications excise tax.

death tax; permanent repeal (H.C.M. 2011)

Requests the United States Congress to: immediately and permanently repeal the federal death tax; enact the American Sovereignty Restoration Act of 2005, which would end the U.S. membership in the United Nations; and adopt legislation to allow Arizona and the Nation to display the Ten Commandments in public buildings and enact legislation to keep God in the Pledge of Allegiance and national motto and remove these areas from U.S. Supreme Court jurisdiction.

local government levy limits; rebase. (H.C.R. 2056)

Beginning in 2007, subject to voter approval, constitutionally requires the levy limit for cities, towns, counties and community college districts to be calculated from the actual tax levy of the political subdivision in 2005. This ballot measure is required to be known as and may be cited as the 2006 Taxpayer Protection Act.

VETOES

~~tax simplification~~ (NOW: corporate tuition tax credit; administration) (S.B. 1071) – VETOED

Eliminates the first come, first serve preapproval process for corporate contributions to a school tuition organization (STO) to qualify for the income tax credit and establishes a mechanism that allows the Department of Revenue (DOR) to prorate contribution amounts that exceed the annual cap. Establishes a reallocation process in cases when DOR adjusts the preapproved contribution amounts.

FINANCE COMMITTEE (Cont'd.)

STOs are required to apply for preapproval to receive corporate contributions for the purposes of the tax credit in FY 2006-2007 within 10 days of the effective date of the bill. DOR is required to review the applications between 20 and 30 days after the effective date of this bill.

In her veto message, the Governor asserts that making changes to the school tuition tax credits is premature. Further, she is concerned that a taxpayer who fails to make a pledged contribution would no longer be precluded from making the contribution in the future.

tax credits; withholding tax reductions (S.B. 1151) – VETOED

Allows an employee to request a reduced withholding by the amount of the tax credit for the amount of the employee is eligible for contributions to a school tuition organization, a public school in support of extracurricular fees or a qualified charitable organization that provides assistance to the working poor. The employer, within 30 days, must reduce the withholding amount by the amount of the tax credit and prorate the withholding amount for the number of pay periods remaining in the employee's taxable year.

In her veto message, the Governor asserts that the bill poses undue burdens on employers and payroll service companies.

schools; maximum property tax rate (S.B. 1206) – VETOED

Prohibits a school district from raising the primary property tax rate higher than the current year's rate if: 1) the total primary property taxes owed to all jurisdictions result in at least 50 percent of homeowners in the district exceeding the one percent constitutional cap on what homeowners can pay in property taxes and 2) the primary property tax rate in the district exceeds 150 percent of the state qualifying tax rate (QTR). Requires the Property Tax Oversight Commission to annually notify those school districts, county school superintendents and county boards of supervisors affected by the law by December 31.

In her veto message, the Governor states that she vetoed S.B. 1206 for the same reasons she vetoed an identical bill during the 2005 legislative session. Her reasons stated then included imposing a cap on school district tax rates is an intrusion on local control, the threshold of 150 percent of the QTR is arbitrary and capping the property tax rate furthers per pupil spending discrepancies.

~~uniform local sales tax base~~ (NOW: public health services district) (S.B. 1217) – VETOED

Eliminates the ability of a county board of supervisors to establish a public health services district by unanimous vote.

The Governor states in her veto message that this bill is unnecessary and she is opposed to eliminating the counties' flexibility and believes S.B. 1217 would limit a county's ability to respond to a crisis.

FINANCE COMMITTEE (Cont'd.)

electric generation facilities; tax valuation (S.B. 1290) – VETOED

Beginning January 1, 2006, requires the use of a 20-year valuation table for determining the valuation of personal property used in operating either natural gas fired electric generation facilities with an exempt wholesale generator certificate or electric generation facilities without an exempt wholesale generator certificate but that were not valued in a prior year.

In her veto message, the Governor states that the Department of Revenue's valuation table was carefully and deliberately developed. She opposes providing electric generation facilities with additional tax valuation breaks and believes the bill is unnecessary.

water utility systems; valuation (S.B. 1432) – VETOED

Effective tax year 2007, changes the valuation of water utility systems from centrally assessed property to locally assessed property and sets a maximum property valuation of \$500 for land, buildings, improvements and personal property per water utility system.

In her veto message, the Governor expresses her concern about the resulting tax shift to other taxpayers, the absence of a requirement for a water company to request a water rate reduction hearing and the precedent of providing a property tax exemption to for-profit businesses because similar public sector companies are exempt from property tax.

property tax valuation; pipelines (S.B. 1543) – VETOED

Modifies the formula and valuation calendar for determining the total valuation of all pipeline property.

In her veto message, the Governor expresses concern about the potential tax shifting precedent resulting from excluding personal property construction work in progress from valuation and the proposed changes to the Arizona allocation factor to exclude certain costs from the Arizona property cost.

school tuition organizations; tax credit (H.B. 2004/S.B. 1060) – VETOED

Starting FY 2006-2007 through FY 2010-2011, establishes a corporate income tax credit for the amount of voluntary cash contributed by a corporation in each taxable year to a school tuition organization (STO). The amount of the tax credit is the amount of the contribution and must be preapproved by the Department of Revenue (DOR). The aggregate amount of the tax credit is capped at \$5 million annually.

An STO is required to use 90 percent of the corporate contributions that qualify for the tax credit to provide educational scholarships or tuition grants to low income children who meet certain private school attendance requirements. An STO may not issue a scholarship or tuition grant in an amount greater than \$4,200 for grades K-8 and \$5,500 for grades 9-12 in 2006. This amount increases by \$100 each year thereafter. Children who receive educational scholarships or tuition grants are allowed to attend any private school. Establishes STO has annual reporting requirements.

FINANCE COMMITTEE (Cont'd.)

DOR may verify that an STO awarded educational scholarships and grants to students who attend a private school. A private school must annually administer and make available to the public the aggregate test scores of its students on a nationally standardized norm-referenced achievement test, preferably the Arizona Instrument to Measure Standards test, and require all teaching staff and any personnel who have unsupervised contact with students to be fingerprinted.

In her veto message, the Governor states that she was only willing to sign H.B. 2004 as part of a comprehensive budget package.

tourism and sports authority; funding (H.B. 2007/S.B. 1063) – VETOED

Eliminates the automatic transfer of monies from the state General Fund to the Arizona Tourism and Sports Authority (DBA the Arizona Sports and Tourism Authority or AZSTA) when income tax collections from the National Football League are below the statutorily required minimum, retroactive to July 1, 2006.

In her veto message, the Governor states that the proposed revenue cut will result in the downgrade of AZSTA's bond credit rating, subject AZSTA to higher interest rates on its debt and potentially hinder AZSTA's ability to meet its funding obligations.